TABLE 5. FEDERAL FINANCING AND PROJECT RESPONSIBILITY FOR SELECTED PUBLIC WORKS INFRASTRUCTURE AND DEVELOPMENT PROGRAMS

Program Area	Federal Share of Total Capital Spending	Source and Type of Federal Funds	Federal Share of Matching Grants	Project Selection	Project Construction and Management
Highways	About 30 percent of total spending on roads, including maintenance; 50 percent for construction and major repairs on Federal-Aid System	Trust fund (95 percent); general fund (5 percent); formula and discretionary grants	75-95 percent for capital grants (new construction and major repairs)	State and local governments (subject to FHWA regulations); Interstate routes chosen by federal government in consultation with states	State and local governments; some toll roads
Public Transit	About 75 percent	Trust fund (25 percent) general fund (75 percent); discretionary and formula grants	75-85 percent for capital grants; 50 percent for operating assistance grants	Transit authorities (subject to UMTA approval)	Transit authorities
Airports	About 20 percent for construction at commercial airports; about 85 percent for general aviation airports	Trust fund; formula and discretionary grants	50-94 percent	Airport authorities, in conjunction with airlines	Airport authorities

(Continued)

TABLE 5. (Continued)

Program Area	Federal Share of Total Capital Spending	Source and Type of Federal Funds	Federal Share of Matching Grants	Project Selection	Project Construction and Management
Water Resources	About 75 percent for dams; 100 percent for dredging of ports and inland waterways	General fund; direct expenditures	Not applicable	States and federal government (ports); federal government, with state and local input (waterways and dams)	Federal government (waterways, dredging of ports, dam construction); federal and state agencies (dam management)
Wastewater Treatment	About 70 percent	General fund; project grants	75 to 85 percent a/	Local agencies with state or EPA assistance	Localities
Community Development	b/	General fund; formula and discretionary grants	Not applicable	Local and state governments	Localities
Economic Development	b/	General fund; discretionary grants	Not applicable	Federal government	Localities

a. For fiscal year 1985 and thereafter, the federal match will be 55 percent for conventional systems and 75 percent for "innovative" systems.

b. The federal government pays 100 percent of the community development projects it assists and from 13 to 90 percent of selected economic development projects. Federally aided projects are only a share, however, of total community and economic development investment.

economic growth. The federal government generally provides from 13 to 90 percent of economic development project costs, with state and local governments or the private sector providing the balance (see Table 5).

Highways

The federal government spends more on highways and bridges than on any other component of the nation's infrastructure. For 1983, federal funding will be about $13.5 billion, or roughly half of the federal government's total spending for public works infrastructure. Federal funds come from the Highway Trust Fund, which is supported by a series of user taxes, most importantly the nine-cent-per-gallon federal tax on motor fuels. 5/

Since 1923, the Federal-Aid System of highways has grown from 169,000 miles or 5 percent of the nation's roads to 820,000 miles and over 20 percent of the route-miles. The Federal-Aid System now includes 40,000 miles of Interstate routes, 260,000 miles of major Primary System arterials, 400,000 miles of collector routes in rural areas (the Secondary System), 125,000 miles in the Urban System, and 260,000 bridges. The Interstate System, which represents only 1 percent of the nation's roads, alone carries about one-fifth of all traffic, and is now over 95 percent complete. In contrast to the rest of the nation's highway system, where states have basic responsibility for selecting routes to be built, the federal government approves which routes are eligible to be parts of the Interstate program and provides the funds to build these routes on unusually attractive terms--at least 90 percent of costs paid for by the federal government. 6/

Over the years, the definition of the Interstate System has expanded to include many roads that are of greater interest to states and localities than to the federal government. This is largely because the financial advantages conferred on states by the 90 percent federal match for Interstate highway construction encouraged states to build many highway projects that are unnecessary from a national perspective. Today, over 70 percent of the cost of completing the Interstate is for routes of predominantly local importance--routes that are not part of the network

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5. See Congressional Budget Office, Financial Options for the Highway Trust Fund (December 1982).

6. The federal matching share for most non-Interstate highway programs is now 75 percent.

necessary to link principal cities together, but that link facilities of regional importance or improve traffic circulation in urban areas. 7/

In addition to the Interstate System, federal funds also support the Primary, Secondary, and Urban systems, the Bridge Replacement and Rehabilitation program, and a variety of safety and other specially targeted programs. Federal grants account for about 70 percent of capital spending for the Primary System, which is composed largely of significant intercity arteries in rural areas, carrying twice as much interstate traffic as the Interstate System. By contrast, federal spending represents only about 20 percent of total government capital spending on the Secondary and Urban systems. Federal aid has relatively little influence on the total amounts spent for these locally oriented systems. States and localities carry most of the burden for these systems, for roads that are not included in any of the various federally assisted programs, and for routine maintenance--such as grass mowing and pothole filling--on all road systems.

Effects of Current Programs. The most basic rationale for federal involvement in highways rests on the need for a coordinated national network of roads to facilitate interstate commerce. Because the benefits from such a system extend beyond individual states, federal financial aid is required to ensure that an adequate interconnected network is built. Although some parts could be self-supporting as toll roads, the network as a whole requires government support.

The extent of national interest in the different highway programs varies considerably, however. The major federal interest is centered on the Interstate and Primary systems, and on related bridges--roads that link activities in different states and contribute to interstate commerce. Aid for the rest of the Federal-Aid System can be considered a form of intergovernmental subsidy.

Although the size of the current federal commitment is roughly in line with the needs for highway infrastructure, federal programs could be better targeted to promote effective investment. 8/ For instance, the most significant national highway problem appears to be the deteriorating condition of the Interstate System and certain other important parts of the Federal-Aid network. Repairing these key commercial routes is of higher national

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7. See Congressional Budget Office, The Interstate Highway System: Issues and Options (June 1982).

8. See Congressional Budget Office, Public Works Infrastructure: Policy Considerations for the 1980s, Chapter II.

priority than building remaining Interstate routes that are primarily of local or regional importance. Under current policies, however, the federal government continues to spend large sums--about $4.5 billion was authorized in 1983--for Interstate completion, even though less than half of the remaining cost of the Interstate network is related to constructing an interconnected system of intercity roads. In addition, over $2 billion in federal funds is devoted annually to the locally oriented Secondary and Urban systems and to programs representing a mix of safety, economic development, and special regional concerns of particular interest to state and local governments, which are in the best position to make effective project choices.

Public Transit

Federal funding of mass transit began in the early 1960s, mainly to help localities purchase failing private bus lines and upgrade their equipment. Then, during the early 1970s, federal capital aid increased rapidly, permitting greater use of funds for existing and new rail systems. In many cities, fares were held down to encourage ridership; and, as transit systems expanded, labor and other costs rose dramatically. As a result, operating deficits grew until most systems were relying on the farebox for less than half their operating costs. As this burden increased, operating subsidies were added to the federal program in 1975.

With the dedication to transit of one cent of the new five-cent-per-gallon tax on motor fuel, the federal government will provide about $3.4 billion in capital grants for public transit in 1983, and an additional $0.9 billion in operating assistance grants. With the exception of some projects in a few large cities, almost every transit capital project uses federal aid, with a 20 percent nonfederal match (25 percent beginning in fiscal year 1984). Capital grants are used for four basic purposes: new bus purchases and bus maintenance facilities; modernization of existing rail transit systems; extension of existing rail transit systems; and construction of new rail systems. Federal operating grants cover about 13 percent of transit operating costs nationwide.

In contrast to most other federal infrastructure programs, virtually all federal transit grants are made to local rather than state governments, and local governments are largely responsible for project selection and management. Grants administered by the Urban Mass Transportation Administration (UMTA) are of two types--project grants for rail- and bus-related capital projects, made at the discretion of the UMTA Administrator; and formula grants for operating assistance and routine capital investments such as bus replacement. Capital funds are also provided by "Interstate substitu-

tion" grants for cities that have decided not to build specific segments of the Interstate Highway System. 9/

The Surface Transportation Assistance Act of 1982 created a modified transit block grant program that will go into effect in fiscal year 1984. The new transit block grant will replace UMTA's existing urban formula grant program, which provides funds for operating assistance (the bulk of the program) and for capital uses such as routine bus replacement. Block grant funds can be used for capital or operating purposes, with the annual amount available for operating assistance in 1984-1986 limited to a specified percentage of each urbanized area's 1982 operating apportionment.

Effects of Current Programs. In contrast to most other federally assisted infrastructure programs, the benefits from mass transit are predominantly local. Therefore, federal assistance to transit rests on a federal decision to assist urban areas and on the perception that, without such help, localities could not afford all the capital investment necessary to build and maintain public transportation systems. In response to this perception, the federal government has provided high federal capital grants--covering 80 percent of project costs through fiscal year 1983, and 75 percent thereafter. 10/ This generous federal share, usually augmented by state money, gives local authorities an incentive to start new capital-intensive transit systems and to buy new equipment rather than invest in the continued maintenance and repair of existing facilities. After federal and state contributions, local governments may pay only 10 percent of total project costs.

Federal aid to mass transit, including operating assistance, has also been justified on grounds that transit can help attain several important social and economic objectives. These include easing urban road traffic congestion, saving energy, reducing pollution, and providing people without cars access to jobs. But recent studies indicate that many of these objectives are not realized. For example, reductions in public transit fares appear to have little effect on traffic levels in urban areas, even though the

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9. If the Federal Highway Administration agrees with a city's contention that a certain planned Interstate route is not of national significance, the city has the option of using these funds, subject to appropriations, for either transit or other highway projects. In contrast to the rest of the transit program, the federal government has relatively little influence over how or where these grants are used.

10. The federal share for all projects covered by existing Letters of Intent and Full Funding contracts will remain 80 percent.

justification for the transit subsidies required to lower fares includes expected benefits from reduced auto congestion and air pollution. And although a major benefit commonly attributed to new rail lines is reduced road congestion, evidence suggests that new rail systems tend to attract chiefly bus and carpool passengers and thus do not significantly reduce the number of automobiles on the roads. 11/ Similarly, mass transit's benefits to disadvantaged groups, such as the poor, the elderly, and the disabled, are often taken for granted. While this assumption appears valid for such highly specialized services as "dial-a-ride" vans, most forms of mass transit serve predominantly higher-income persons of working age. 12/ In general, it appears that federal transit subsidies have not been very effective in reducing external costs such as road congestion or in alleviating personal hardship.

Airports

The Federal-Aid Airport Program was initiated in 1946 as a means of accelerating the development of a commercially viable aviation system. Today, the Federal Aviation Administration (FAA) manages the user-supported Airport and Airway Improvement Program, through which the federal government makes 50 to 94 percent matching grants for construction and rehabilitation of the nation's airports. For 1983, the federal government has authorized $800 million for capital improvements to airports, and an additional $4 billion has been authorized over the next four years. 13/

Under current policy, virtually every publicly owned airport in the country is eligible to receive federal assistance, including the 780 commercial airports, which are served by scheduled commercial air carriers or by commuters and air taxi operators, and the 2,379 general aviation

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11. See, for example, Institute of Public Administration, Financing Transit: Alternatives for Local Government, prepared for U. S. Department of Transportation (July 1979), pp. 9-10.

12. See Robert B. Cervero and others, Efficiency and Equity Implications of Alternative Transit Fare Policies, prepared for U.S. Department of Transportation (September 1980), and Congressional Budget Office, Urban Transportation for Handicapped Persons: Alternative Federal Approaches (November 1979).

13. The Congress has imposed obligation ceilings of $750 million for 1983 and $800 million for 1984.

airports, used exclusively by small planes owned by individuals and private corporations for recreational or business use. Of the 780 commercial airports, the 66 largest serve about 90 percent of all air passenger traffic. And only 155 general aviation airports--designated as "reliever" airports--are needed to help reduce congestion at major commercial airports. The remaining 2,224 general aviation airports serve predominantly local needs. 14/

Effects of Current Programs. Historically, the federal government helped stimulate the commercial aviation system by making capital grants for airport development. Today, every major city has an airport, and the dependence on federal aid varies greatly. Direct federal funds now appear to account for 20 percent or less of total investment monies at large airports, the balance being drawn from the issuance of tax-exempt bonds, retained earnings, and other nonfederal sources. With major airports rated in the municipal bond market as premium investments, these airports might easily finance further improvements without federal aid. By contrast, many small airports, especially general aviation airports, earn insufficient revenues to cover debt service, and these tend to rely much more heavily on federal funding. A sizable number of general aviation airports currently do not charge landing fees, and have only minimal charges for the use of parking tie-downs and other facilities; many could substitute such fees for existing federal grant assistance. Except in the case of reliever airports that help reduce congestion at major commercial airport facilities, there appears to be little economic justification for the extensive federal support of general aviation airports, given their limited contribution to a national transportation system and their substantial, untapped revenue-raising potential.

Water Resources

Since the early years of the nation's history, the federal government has been involved in financing, constructing, and operating a variety of water resource projects, including inland waterways (locks, dams, and

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14. These are included in the National Airport System Plan and eligible for federal aid based on the FAA's broad definition of national significance. According to this definition, a general aviation airport has national significance if it is publicly owned, has at least 10 based aircraft, and serves a community located 30 minutes or more from another existing or proposed airport in the National Airport System Plan.

channel dredging), ports and harbors, and multipurpose dams. 15/ For 1983, $4.3 billion in direct federal expenditures have been authorized in these areas, including construction, operation, and maintenance.

The federal government, largely under the auspices of the U. S. Army Corps of Engineers, plays a dominant role in building and maintaining the nation's water resources public works. For most types of projects, the federal government finances all capital costs but ultimately pays somewhat less because of reimbursements from users and other nonfederal contributions. For the average inland waterway project, the federal government pays about 94 percent of combined capital and operating costs over the project's life. For multipurpose dam projects, the federal share averages 70 percent of combined costs, but may range anywhere from about 36 percent for a single-purpose hydroelectric project to 89 percent for an irrigation project. The federal government's share of costs for a typical commercial harbor project is approximately 84 percent. 16/

Effects of Current Programs. Historically, the federal government's role in water resources has been based extensively on the goal of promoting regional economic development. For example, the federal government built the system of inland waterways when no other transportation mode existed to serve growing industry and agriculture in the South and Midwest. With the maturing of regional economies and the completion of most water projects necessary to achieve regional development goals, some of the major concerns motivating federal subsidization of water resources infrastructure no longer apply. Nevertheless, large federal subsidies have continued, even in areas where there are significant opportunities for user fee financing. For instance, under current policy, local sponsors pay only 11 percent of the cost to construct dams for irrigation purposes, and the federal government continues to provide heavily subsidized irrigation water to western farmers--a subsidy that has outlived its original purpose of hastening the development of the West. Similarly, although freight shipping on inland waterways has become a mature business, federal subsidies today cover more than one-fourth of the costs of the barge industry--more than ten times the share of federal subsidies for other modes of transport. Continuation of federal subsidies for water transport encourages the use of barges

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15. Multipurpose dams serve several functions, including flood control, irrigation, navigation, hydroelectric power generation, municipal and industrial water supply, and recreation.

16. For further details, see Congressional Budget Office, Current Cost-Sharing and Financing Policies for Federal and State Water Resources Development (July 1983).

rather than railroads, and this in turn stimulates demand to build more locks and dams with federal dollars.

Several other concerns have provided a basis for federal involvement in certain water resource projects: national defense and security (ports and harbors); the benefits of centralized coordination (inland waterways, multi-state reservoir systems); and the presence of external costs and benefits, as in water quality or flood control. Most of the federally important water projects have already been built, however; future water resource needs will be concentrated on the management and rehabilitation of existing facilities, with smaller intrastate projects likely to dominate new construction.

Wastewater Treatment

While the federal government has provided some grants for wastewater treatment facilities since the late 1950s, the extensive federal role in wastewater treatment grew out of the awakened national concern for preserving and improving environmental quality in the 1960s and 1970s. The 1972 Water Pollution Control Act sought to achieve "fishable and swimmable" waters by 1983 and to eliminate pollution of navigable U.S. waters by 1985. The Construction Grants program administered by the Environmental Protection Agency (EPA) was designed to achieve specific, federally mandated pollution abatement goals nationwide, within a strictly limited time-frame. To attain these goals, the federal government undertook to pay 75 percent of the capital costs of constructing or improving publicly owned wastewater collection, treatment, and disposal works.

Since peaking in the late 1970s, annual authorizations for this program have dropped to $2.4 billion in 1983. The federal matching share will decrease from 75 percent to 55 percent of project costs beginning in fiscal year 1985. In addition to their matching share of EPA grants for capital improvements, localities pay all costs of operating and maintaining these systems. Recently, many states have initiated grant and loan programs to help local jurisdictions meet their capital requirements for wastewater treatment.

Effects of Current Programs. The rationale for federal involvement in wastewater treatment rests largely on the presence of significant external costs and benefits. The benefits of wastewater collection and treatment systems accrue both to primary users and to downstream communities. Building adequate facilities solves local wastewater collection and water quality problems, but clean water also benefits others downstream who pay nothing for it. Consequently, no single community would be willing to charge its residents the full cost of wastewater treatment. Thus the

responsibility for maintaining clean rivers, lakes, and streams is shared both by direct users and by all levels of government.

Beginning in fiscal year 1985, financing responsibility will be divided more evenly than at present as the federal share on EPA grants will drop to 55 percent. A drawback of existing federal policy, however, remains its inflexibility in certain situations. In effect, wastewater treatment equipment must be installed to achieve cleaner bodies of water regardless of local water quality or hydrological conditions. In some situations, however, water quality is more directly linked to sources of pollutants other than wastewater, and in others natural processes can make extensive treatment unnecessary. In these cases, capital-intensive wastewater treatment may not achieve higher water quality. More flexible federal standards would allow localities to implement more cost-effective solutions.

Community Development

Federal community development programs support a wide range of local improvements to public and private facilities. Most aid is channeled through the Community Development Block Grant (CDBG) program administered by the Department of Housing and Urban Development (HUD). The rest is provided through the Farmers Home Administration (FmHA) within the Department of Agriculture.

The CDBG program, begun in 1974, was a major federalism initiative of the Nixon Administration, under which seven categorical programs for community development were consolidated into a block grant. 17/ These earlier programs were considered ineffective because their specialized nature prevented local governments from tailoring uses to respond to local conditions and because the federal government could not weigh the advantages of different approaches in distributing funds. The consolidation of these programs into a block grant was intended to allow communities considerable flexibility in designing strategies to meet local development needs.

Funding for the current CDBG program is set at $4.5 billion, including $1.0 billion from the supplemental jobs bill. About 70 percent of funds are provided by formula to urban cities and counties, and the remaining funds

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17. The programs included the urban renewal, neighborhood development, Model Cities, water and sewer facilities, neighborhood facilities, public facilities, and urban beautification programs administered by HUD.

are distributed through project grants to smaller communities. Cities with populations over 50,000, the designated central cities of metropolitan areas, and urban counties are entitled to funds, with the amount received depending on a community's need (measured by such factors as the extent of poverty and the age of its housing stock) relative to the needs of other eligible communities. Funds for smaller communities are allocated to state governments, which design and manage mechanisms for allocating funds. 18/

Recipients of CDBG funds are allowed wide latitude in determining the use of funds. In general, CDBG funds must be used for development activities that either eliminate slums and blight, conserve the housing stock, or meet other urgent needs, and that provide benefits primarily for low- and moderate-income households. Of formula grants provided to larger communities, about one-third is used for housing rehabilitation, usually through grants or reduced-interest loans to low- and moderate-income homeowners to make needed repairs. About one-quarter of the money is used for public facilities projects, including: street and sewer repair; solid waste disposal; flood and drainage facilities; and neighborhood facilities such as senior citizens' centers and parks. The remaining funds are used for widely varying activities, such as social services and economic development activities. Although smaller, nonentitlement communities undertake the same types of activities, over 40 percent of their funds are used for public facilities, while housing assistance represents only one-tenth of the total.

Some community development assistance is also provided by the Farmers Home Administration (FmHA), which makes loans for the development of community facilities. Loans may finance a variety of facilities, such as fire stations, hospitals and nursing homes, city halls, and schools. The interest rate charged on loans is determined by the income of a community's residents and currently varies from 5.0 to 9.125 percent. This assistance is limited to rural areas, with funds allocated by the FmHA on a discretionary basis. Funding for community facility loans is set at $130 million in 1983.

Effects of Current Programs. While the CDBG program provides fiscal relief for large urban governments, its primary role is as a means of fostering better living environments, especially for the urban poor. CDBG is the largest source of federal aid that many cities receive, representing

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18. The participation of state governments in the CDBG program is optional; if a state decides not to participate, HUD awards funds to local governments in the state. In 1983, 49 states are participating in the program.

nearly one-third of all federal grants made to city governments in 1981. Because funds may be used for activities that are generally local responsibilities--repairing roads and sewer lines, developing parks and recreational facilities, improving sidewalks and open areas--they allow recipients to shift local funds that would otherwise have been needed for these activities to other locally determined priorities. But a majority of activities financed by CDBG are functions not generally undertaken by local governments--particularly the rehabilitation of low-income housing and, to a lesser extent, economic development activities. Further, CDBG funds are primarily used for activities that benefit low- and moderate-income households. Thus, the program is seen as a means to increase the resources available to less affluent urban residents and to improve the quality of their neighborhoods.

Economic Development

A small portion of federal development aid is limited to areas experiencing economic distress. Funds for these areas are provided principally by HUD's Urban Development Action Grant (UDAG) program and through the Economic Development Administration (EDA) within the Department of Commerce.

Current economic development programs provide grants to local governments for projects facilitating business expansion. Through the UDAG program, the federal government makes grants for commercial, industrial, and neighborhood development projects that applicants certify could not proceed in the absence of such aid. Federal funds contribute an average of 13 percent of total project costs, with localities contributing an additional 6 percent and the private sector supplying the balance. Local governments receiving action grants generally use them to help acquire sites, to develop needed infrastructure such as access roads or sewer lines, or to provide low-interest loans for project construction. Projects are selected on a competitive basis by HUD, with applicants restricted to local governments judged to be experiencing economic distress. Funding is set at $440 million in 1983.

Some economic development assistance is also provided through the EDA. EDA activity reached a peak in 1979, when the agency administered over $1 billion in aid, including credit assistance, much of it directed to private firms. In 1983, funding for EDA has been reduced to $298 million for grants (including $100 million from the jobs bill) and $150 million in loan guarantee authority. Grants are made to state and local governments to undertake public works projects, such as the development of industrial sites or the provision of water and sewer facilities, and to provide technical

assistance. Loan guarantees are made to private firms, covering up to 90 percent of the principal and interest of loans made by private lenders for the purchase of fixed assets or for working capital. A share of EDA assistance is used for short-term, labor-intensive construction projects such as renovation or rehabilitation of existing buildings. EDA may provide assistance only for projects located in areas meeting specific standards for distress, which for regular EDA projects are set loosely enough to encompass 80 percent of the nation's population, but which are more restrictive for short-term projects.

Effects of Current Programs. Federal support for distressed areas is designed to provide employment opportunities and foster economic activity where these are lacking, thereby stimulating overall productivity and generating growth. This growth is intended to serve as a catalyst in distressed areas, prompting additional private investment and employment growth, increasing local revenues, and eventually decreasing federal costs such as unemployment compensation and income support payments.

An important issue concerning federal economic development activities is the extent to which federal investment substitutes for spending, either by the private sector or by state or local governments, that would have occurred in its absence. Although substitution is difficult to measure, studies have estimated that, in as many as one-third of all projects financed by UDAG, federal funds may have substituted in part or in whole for other spending. One study of EDA public works projects found that as much as half of the private investment in project areas, if not on the project site itself, would have occurred without the EDA-financed project. 19/ Further, even when federal funds create net additional economic activity, it is difficult to ensure that the resulting benefits, such as increased employment, accrue to those most in need of assistance.

OPTIONS FOR CHANGE

To reflect the shifting priorities and objectives of national infrastructure investment and to encourage better investment decisions, the Congress may wish to consider a number of options that would modify the existing

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19. For a further discussion of federal funds substituting for other investment, see: Department of Housing and Urban Development, An Impact Evaluation of the Urban Development Action Grant Program (1982); and Abt Associates, Inc., Employment and Investment Impacts of EDA Public Works Investments and Implications for Future Evaluation Methodology, Draft Final Report (November 26, 1980).

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federal role in public works and development programs. The principal candidates for such revision are programs in which there are no significant external costs and benefits, in which there is no need for centralized coordination, or which are financially sustainable at the state or local level. The realignment approaches examined here include:

- o Eliminating federal funding of projects with primarily local benefits;
- o Changing funding provisions to reduce the federal share of costs for federally assisted projects;
- o Changing program rules by making federal regulations more flexible;
- o Changing both funding provisions and program rules by consolidating existing programs into block grants; and
- o Encouraging creation of cross-cutting financing mechanisms, such as infrastructure banks.

For the most part, these approaches are independent but not mutually exclusive; some would be most effective if put in place in a complementary fashion. The first two would significantly reduce the federal role in existing programs, while the remaining three would provide increased flexibility and financing resources for states and localities, to enable them to assume greater responsibility for these programs. Each of these approaches is discussed in detail below.

The budgetary impact of the specific realignment options would depend on several factors (see Table 6). In programs presently supported by federal user taxes, a turnback of revenues from existing taxes could eliminate or greatly reduce the financial burden placed on states and local governments. Any turnback of revenues or reduction in federal taxes would, of course, reduce the federal budgetary savings. For states and localities, the increase in financial burden would depend on the institution of state and local user fees, the level of offsetting federal aid, and the demand for infrastructure services.

Eliminate Federal Funding

Limiting federal aid to national needs and shifting decisionmaking and financial responsibility for projects with primarily local benefits to states and localities would be most applicable to four program areas: highways,

TABLE 6. ESTIMATED BUDGETARY IMPACT OF SELECTED FEDERALISM OPTIONS FOR PUBLIC WORKS INFRASTRUCTURE, 1984 (In billions of dollars)

Option	Reduction in Federal Obligations	Increase in Nonfederal Financial Burden a/
Eliminate Federal Funding		
Secondary, urban, and non-Federal-Aid roads and bridges	3.0 b/	0
Transit operating aid	0.9	0.9
Grants for airport development	0.5 b/	0
Intrastate water resource projects	1.5	0-1.5
Reduce Federal Share of Costs		
Reduced federal share on transit capital grants (75 to 60 percent)	0.5-1.5 c/	0.5
Reduced federal share on Interstate Highway reconstruction projects (90 to 25 percent)	0.8	0
Federal loan program for intrastate water resource projects	0 d/	0

SOURCE: Congressional Budget Office.

a. Assumes offsetting federal aid and/or state/local user fees. The exact size of the nonfederal burden would depend on the extent of demand for infrastructure services. Without offsetting federal aid and local user fees, the nonfederal financial burden could increase by as much as federal obligations are reduced, if states chose to continue the same level of commitment.

b. Turnback of existing federal user taxes would eliminate the federal budgetary savings.

c. Federal obligations could be reduced by as much as $1.5 billion if the higher local match resulted in a reduction in the number of projects undertaken.

d. Because of initial capitalization costs, there would be no federal budgetary savings in the early years of such a program. Once the program became self-sustaining, however, federal savings could total as much as $1.5 billion a year, with a corresponding increase in the nonfederal burden.

transit, airports, and water resources. In most cases, a relaxation of federal standards and regulations would logically complement such a turnback of responsibility.

Highways. To concentrate federal highway resources exclusively on the roads of greatest national importance, federal aid for all but the Interstate and Primary systems and related bridge programs could be dropped and full financing responsibility for Secondary and Urban systems transferred to state and local governments. Such a shift in federal and state highway roles could place a substantial burden on state governments, since they would be forced either to see less spent on their highways or to increase taxes. This burden might be eased, however, by reducing the federal tax on motor fuel by 2.7 cents per gallon, thereby permitting the states to raise their taxes by $3.0 billion a year--enough to offset fully the reduction in federal aid (see Table 6). A potential problem, however, is that, as the states increased their own user fees, there is no assurance that the resulting distribution of cost recovery would be uniform among states or applied in such a way that each vehicle class paid its share of highway costs. An alternative would be to keep the federal tax and turn back to the states the appropriate portion of federal fuel tax revenues.

Federal funding of the Interstate Highway System might also be more closely aligned with federal priorities if funds were concentrated exclusively on unbuilt routes that are essential to a national, interconnected system of highways. Routes serving predominantly state or regional needs could be excluded from the Interstate System plan, with the exception of those already under construction and those that have received federal approval of their design. Any such attempt to refocus the Interstate program on national needs would probably affect the states unevenly, given the diversity of approaches that states have taken in building their Interstate routes. 20/

Public Transit. The federal government could eliminate operating assistance to local transit authorities. Public transit operations are essentially of local rather than national interest, involving local decision-making concerning such matters as wages, routes, and levels of service. Moreover, as discussed earlier, indiscriminate operating subsidies are not particularly well suited to reducing congestion or increasing transportation access for the disadvantaged--goals that are frequently cited in justification of such subsidies.

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20. For further details, see Congressional Budget Office, The Interstate Highway System: Issues and Options.